2011/12 TO 2013/14
MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Part 1 – Annual Budget

1.1 Mayor's Report

1.2 Council Resolutions

On the 30 March 2012 the Council of King Sabata Dalindyebo Local Municipality met in the Council Chambers of King Sabata Dalindyebo Hall to consider the annual budget of the municipality for the financial year King Sabata Dalindyebo. The Council approved and adopted the following resolutions:

1. The Council of King Sabata Dalindyebo Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

   1.1. The annual budget of the municipality for the financial year 2012/13 and the multi-year and single-year capital appropriations as set out in the following tables:
   1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 18 on page 24;
   1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 19 on page 26;
   1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table 21 on page 28; and
   1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 22 on page 30.

   1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
   1.2.1. Budgeted Financial Position as contained in Table 23 on page 32;
   1.2.2. Budgeted Cash Flows as contained in Table 24 on page 34;
   1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table 25 on page 34;
   1.2.4. Asset management as contained in Table 26 on page 36; and
   1.2.5. Basic service delivery measurement as contained in Table 27 on page 38.

2. The Council of King Sabata Dalindyebo Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2012:
   2.1. the tariffs for property rates – as set out in Annexure A,
   2.2. the tariffs for electricity as set out in Annexure B

3. The Council of King Sabata Dalindyebo Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2010 the tariffs for other services, as set out in Annexures G1 to G21 respectively.

4. To give proper effect to the municipality's annual budget, the Council of King Sabata Dalindyebo Local Municipality approves:

   4.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in

terms of the municipality’s funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality’s financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury’s MFMA Circular No. 51, 54, 58 and 59 were used to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging roads and electricity infrastructure;
- The need to re-priorities projects and expenditure within the existing resource envelope given the cash flow realities.
- The increased cost of bulk electricity due to tariff increases from Eskom, which is placing upward pressure on service tariffs to residents.
- Wage increases for municipal staff as well as the need to fill critical vacancies;
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- The 2011/12 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2012/13 annual budget;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk electricity municipality. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2012/13 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2012/13 MTREF

	Current Year	Budget Year	Budget Year +1	Budget Year +2
	Adjusted	2012/13	2013/14	2014/15
Revenue	-634 132	-659 821	-704 779	-760 298
Operating expenditure	624 588	657 157	701 019	756 862
Surplus	-9 544	-2 664	-3 761	-3 436
Contribution to Capital outlay	9 544	2 386	2 386	2 386
Capital budget	252 590	182 027	105 694	113 633

Total operating budget has grown by 5 % or R32 million for the 2012/13 financial year when compared to the 2011/12 Adjustments Budget.

For the two outer years, operational budget will increase by 6.7% (R44 million) and 8% (R56 million) respectively, equating to a total growth of R100 million over the MTREF when compared to the 2011/12 financial year.

The capital budget of R131 million for 2012/13 is R121 million less than the 2011/12 Adjustment Budget. The reduction is due to Human Settlement Projects budgeted for in the 2011/12 being finalised.

1.4 Operating Revenue Framework

For King Sabata Dalindyebo to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 90 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Attempts to achieve a full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;

- The municipality’s Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2012/13 MTREF and revenue growth. (Classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Description	Budget Year 2011/12					2012/13 Medium Term Revenue & Expenditure Framework				
R thousand	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	% Increase	Budget Year 2012/13	% Increase	Budget Year +1 2013/14	% Increase	Budget Year +2 2014/15
Revenue By Source	R 000	R 000	R 000	R 000		R 000		R 000		R 000
Property rates	128 765	129 473	129 473	–	6%	137 241	6%	145 476	6%	154 204
Property rates - penalties & collection charges		–	–	–		–		–		–
Service charges - electricity revenu	224 488	200 799	200 799	–	11.03%	222 941	13%	250 823	11%	278 104
Service charges - water revenue	–	–	–	–		–		–		–
Service charges - sanitation revenu	–	–	–	–		–		–		–
Service charges - refuse revenue	21 360	22 054	22 054	–	7%	23 598	7%	25 250	7%	27 017
Service charges - other	3 649	3 097	3 097	–	6%	3 282	6%	3 479	6%	3 688
Rental of facilities and equipment	14 779	13 219	13 219	–	6%	14 012	6%	14 853	6%	15 744
Interest earned - external investmer	2 449	3 949	3 949	–	0%	3 949	0%	3 949	0%	3 949
Interest earned - outstanding debto	18 316	22 316	22 316	–	0%	22 316	0%	22 316	0%	22 316
Dividends received		–	–	–		–		–		–
Fines	1 942	1 972	1 972	–	7%	2 110	7%	2 257	7%	2 415
Licences and permits	12 946	13 489	13 489	–	7%	14 433	7%	15 444	7%	16 525
Agency services	–	2	2	–		2	6%	2	6%	2
Transfers recognised - operational	187 883	191 074	191 074	–	-5%	181 848	2%	184 798	7%	198 032
Other revenue	7 088	32 158	32 158	–	6%	34 087	6%	36 133	6%	38 300
Gains on disposal of PPE	530	530	530	–		–		–		–
Total Revenue (excluding capital transfers and contributions)	624 194	634 132	634 132	–		659 821		704 779		760 298

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise approximately 56% total revenue mix. This increases to R32 million, R38 million and R38 million in the respective financial years of the MTREF. This growth can be mainly attributed to the increased share that the sale of electricity and rates contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity and rates due to valuation roll to be conducted in 2012/13 financial year. .

- Electricity sales is the largest own revenue source at R222 million being 33% of the total revenue mix.

- Property rates is the second largest own revenue source at R137 million being 21 % of the total revenue mix.
- The third largest sources is 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, transport fees and advertisement fees. This type of own revenue is at R95 million representing 15% of the total revenue mix.
- Refuse removal are budgeted for at R24 million representing 3% of the total revenue mix.

Operating grants and transfers totals R181 million in the 2012/13 financial year. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increase of both Eskom bulk tariffs of 13.5 % is far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity is largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability. The municipality has hit the ceiling in terms of the prepaid sales to commercial and that is an area that will need further consultations with NERSA.

It must also be noted that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51, 54, 58 and 59 deal, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R25 000 reduction on the market value of a property will be granted in terms of the Municipality's own Property Rates Policy;
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy. In this regard the following stipulations are relevant:
  - For pensioners, physically and mentally disabled persons, a maximum/total rebate of 100 per cent will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year.
  -
  - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependents without income;
  - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
  - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and
  - The property must be categorized as residential.

- The Municipality may award a 100 per cent grant-in-aid on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Chief Financial Officer in the prescribed format for such a grant.

Table 3 Comparison of proposed rates to levied for the 2011/12 financial year

Category	**Current Tariff (1 July 2011)**	**Proposed tariff (from 1 July 2012)**
	C	**C**
Residential properties	0.90	0.96
State owned properties	2.49	2.64
Business & Commercial	1.81	1.92
Agricultural	0.90	0.96
Vacant land	0.90	0.96
Industrial	1.81	1.92
Parking Development	0.13	0.14
Public benefit organization properties	1.81	1.92

The increase in property rates is set at 6% in terms of the NT guidelines.

1.4.2 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 13.5 per cent increase in the Eskom bulk electricity purchases by municipalities will be effective from 1 July 2012.

Considering the Eskom increases, the consumer tariff had to be increased by 11.03 per cent as recommended by NERSA from 1 July 2011. Furthermore, it should be noted that given the

magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

The following table shows the impact of the proposed increases in electricity tariffs:

Table 4 Comparison between current electricity charges and increases.

		BUDGET YEAR 2011/12	%INCREASE	BUDGET YEAR 2012/13	%INCREASE	BUDGET YEAR 2013/14	% INCREASE	BUDGET YEAR 2014/15
DOMESTIC PREPAYMENT								
Domestic Low demand Charge (per KWH)	BLOCK 1	0.63	11.03%	0.66	11.03%	0.72	11.03%	0.79
Domestic High demand charge per (kwh)	BLOCK 2	0.72	11.03%	0.82	11.03%	0.90446	11.03%	0.99
	BLOCK 3	0.98	11.03%	1.09	11.03%	1.20227	11.03%	1.3236
	BLOCK 4	1.14	11.03%	1.29	11.03%	1.42287	11.03%	1.56626
COMMERCIAL PREPAYMENT								
Energy Charge (per KWH)								
Small (Tariff 3)		135.95	0.00%	135.95	11.03%	149.89	11.03%	165.32
Big (Tariff 4)		135.95	0.00%	135.95	11.03%	149.89	11.03%	165.32
COMMERCIAL Conventional								
Basic Charge/month		237.79	11.03%	264.02	11.03%	291.21	11.03%	321.2
Energy		1.07	11.03%	135	11.03%	148.9	11.03%	164.23
LARGE POWER USERS = 100kVA								
Basic Charge/month		R 727.83	11.03%	R 808.11	11.03%	891.34	11.03%	983.14
Energy Charge (per KWH)		R 0.91490	11.03%	R 1.02	11.03%	1.12	11.03%	1.23
Demand Charge/ KVA		R 161.09	11.03%	R 178.85	11.03%	197.27	11.03%	217.58
LARGE POWER USERS (over 100KVA)								
Basic Charge per month		663.82	11.03%	R 737.03	11.03%	812.94	11.03%	896.67
Energy Charge		36.41	11.03%	R 40.43	11.03%	44.59	11.03%	49.18
Demand Charge (per KVA)		161.12	11.03%	R 178.89	11.03%	197.31	11.03%	217.63

It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2011. The effect thereof is that the higher the consumption, the higher the cost per kWh. The aim is to subsidize the lower consumption users (mostly the poor). The municipality has hit the ceiling in terms of the prepaid sales to commercial and that is an area that will need further consultations with NERSA.

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the Municipality. The upgrading of the Municipality's electricity network has therefore become a strategic priority, especially the substations and transmission lines.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply).

Owing to the high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal electricity tariff – as the resultant tariff increases would be unaffordable for the consumers.

1.4.3 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are hiring costs, increases in general expenditure and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle.

A 7 per cent increase in the waste removal tariff is proposed from 1 July 2012. Higher increases will not be viable in 2012/13 owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services.
The following table compares current and proposed amounts payable from 1 July 2012:

Table 5 Comparison between current waste removal fees and increases

Description	Budget Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework				
R thousand	Original Budget	Full Year Forecast	% Increase	Budget Year 2012/13	% Increase	Budget Year +1 2013/14	% Increase	Budget Year +2 2014/15
<u>Annual Charges</u>	1460.91	1460.91	7.00	1 563.17	7.00	1 672.60	7.00	1 789.68
Domestic (2 bags or bins once per week)	2938.51	2938.51	7.00	3 144.20	7.00	3 364.30	7.00	3 599.80
Commercial/Industrial/Institutional (2 bins or bags once per week)	1460.91	1460.91	7.00	1 563.17	7.00	1 672.60	7.00	1 789.68
Per additional bag or bin	2938.51	2938.51	7.00	3 144.20	7.00	3 364.30	7.00	3 599.80
Per additional service removal per week								
Refuse Removal : Full Level of Service								
<u>Monthly Charges</u>	123.24	123.24	7.00	131.87	7.00	141.10	7.00	150.98
Domestic (2 bags or bins once per week)	3.04	3.04	7.00	3.25	7.00	3.48	7.00	3.72
Commercial/Industrial/Institutional (2 bins or bags once per week)	123.24	123.24	7.00	131.87	7.00	141.10	7.00	150.98
Per additional bag or bin	247.86	247.86	7.00	265.21	7.00	283.78	7.00	303.64
Per additional service removal per week								-
						-		-
Refuse Removal : Basic Level of Service						-		-
<u>Annual Charges</u>	834.80	834.80	7.00	909.93	7.00	973.63	7.00	1 041.78
Domestic	1953.44	1953.44	7.00	2 129.24	7.00	2 278.29	7.00	2 437.77
Business/Industry	1953.44	1953.44	7.00	2 129.24	7.00	2 278.29	7.00	2 437.77
Government Institutions								-
Coffee Bay & Hole-in-the-Wall						-		-
Service						-		-
<u>Monthly Charges</u>	70.50	70.50	7.00	76.84	7.00	82.22	7.00	87.98
Domestic	164.46	164.46	7.00	179.26	7.00	191.81	7.00	205.24
Business/Industry	164.46	164.46	7.00	179.26	7.00	191.81	7.00	205.24
Government Institutions						-		-
<u>Sales</u>						-		-
Plastic Refuse bins (each)						-		-
Plastic Refuse Bags (per pack)						-		-
						-		-
<u>Skips</u>	550.89	550.89	7.00	600.47119	7.00	642.50	7.00	687.48
Rental per skip per month	6534.32	6534.32	7.00	7122.40771	7.00	7 620.98	7.00	8 154.44
Rental per skip per year	387.73	387.73	7.00	422.62352	7.00	452.21	7.00	483.86
Charge per clearance of skip						-		-
						-		-
<u>Excess Refuse</u>	232.31	232.31	7.00	253.21681	7.00	270.94	7.00	289.91
Garden Refuse (per 2.5lt load)	325.27	325.27	7.00	354.5443	7.00	379.36	7.00	405.92
load)	176.59	176.59	7.00	192.48746	7.00	205.96	7.00	220.38

1.4.4 Other direct income

The tariff increase on direct income is budgeted for at 6% in line with the recommendations per circulars 58 and 59.

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2012/13 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit. Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA. Operational gains and efficiencies will be directed to funding the capital budget and other core services; and strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2012/13 budget and MTREF (classified per main type of operating expenditure):

Table 6 Summary of operating expenditure by standard classification item

Description	Budget Year 2011/12					2012/13 Medium Term Revenue & Expenditure Framework				
R thousand	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	% Increase	Budget Year 2012/13	% Increase	Budget Year +1 2013/14	% Increase	Budget Year +2 2014/15
Expenditure By Type	R' 000	R' 000	R' 000	R' 000		R' 000		R' 000		R' 000
Employee related costs	222 759	221 843	221 843	–	6%	235 153	6%	249 262	6%	264 218
Remuneration of councillors	16 813	19 474	19 474	–	6%	20 643	6%	21 881	6%	23 194
Debt impairment	16 655	16 655	16 655	–	2%	16 932	11%	18 746	-2%	18 406
Depreciation & asset impairment	28 856	22 929	22 929	–		24 075	5%	25 279	5%	26 543
Finance charges	14 967	6 001	6 001	–	0%	6 001	0%	6 001	0%	6 001
Bulk purchases	137 320	149 320	149 320	–		169 478	15%	194 900	15%	224 135
Other materials	–	–	–	–		–		–		–
Contracted services	9 439	10 879	10 879	–	5%	11 467	5%	12 086	5%	12 739
Transfers and grants	4 400	4 400	4 400	–	0%	4 400	0%	4 400	0%	4 400
Other expenditure	165 118	173 087	173 087	–	-2%	169 248	-1%	168 137	5%	176 275
Loss on disposal of PPE	–	–	–	–		–		–		–
Total Expenditure	616 328	624 588	624 588	–	5%	657 397	7%	700 693	8%	755 911
Surplus/(Deficit)	7 866	9 544	9 544	–		2 424		4 087		4 387
Transfers recognised - capital	(7 228)	–	–	–				–		–
Contributions recognised - capital	–	(9 544)	(9 544)	–		(2 424)		(4 087)		(4 387)
Contributed assets	(639)									
Surplus/(Deficit) after capital transfers & contributions	0	–	–	–		0		(0)		(0)

1.5.1. Employee related costs.

The budgeted allocation for employee related costs for the 2012/13 financial year totals R235 million after an increase of 6%. This equals 36% of the total operating budget. The three year collective SALGBC agreement has come to an end. Salary increases have been factored into this budget at a percentage increase of 6 per cent for the 2012/13 financial year after adding one per cent to the recommended 5% increase assuming that increases will be between 5 and 6%.

1.5.2. Remuneration of councilors

The cost associated with the remuneration of councilors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The budget for this expenditure is set at R20.6 million after affecting an increment of 6%.

1.5.3. Debt impairment

The provision of debt impairment was determined based on an annual historical costs and no increase has been made to the 2011/12 budget. The assumption is that the implementation of the debt collection strategy might yield good results. The budget for the debt impairment is R16.9 million.

1.5.4. Depreciation and impairment of assets.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. The budget for the 2012/13 financial is set at R24 million after effecting a 5.4 % increase on the 2011/12 adjusted budget.

1.5.5. Finance Charges

Interest on external loans is budgeted for at R6 million after taking into account loans outstanding at the period of the adjustment budget for the 2011/12 financial year.

1.5.6. Electricity bulk purchases

Bulk purchases are directly informed by the purchase of electricity from Eskom which has been confirmed by NERSA to be 13.5 %. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses. The budget for the 2012/13 is R169.5 million.

1.5.7. Contracted Services

There are three types of contracted services being security services, debt collection and management fees. These fees have been increased by 5.4% from the 2011/12 adjusted budget.

- The budget for security services is R4.9 million.

- Collection of arrear debt is R2.8 million.
- Management fees are R3.6 million.

1.5.8. Other general expenditure

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 3 per cent for 2012/13. This is done to cut none core expenditure and to focus on service delivery and other core functions of the municipality.

Further details relating to contracted services can be seen in Table 64 MBRR SA1 (see page).

1.5.9. Repairs and Maintenance

During the compilation of the 2011/12 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the Municipality's infrastructure and historic deferred maintenance and budget for this line item is set at R36 million.

1.5.10 Contributions to capital outlay

This has been budgeted for at a quarter of last year's budget as the municipality has over the past three years embarked on a massive purchase of furniture and fittings. Any additional capital expenditure would have to be funded out reserves. The budget for the line item is R2.6 million.

1.5.11 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

The budget for the current year is R8.7 million being R4.3 for free basic electricity and R4.4 for indigent subsidy.

1.6 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Table 7 2011/12 Medium-term capital budget per vote

Vote Description	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Single-year expenditure *to be appropriated*							
Vote 1 - 1.Executive and Council	–	–	–	–	356	374	390
Vote 2 - 2.Finance and Asset Management	–	–	–	–	589	2 157	2 360
Vote 3 - 3.Corporate Services	–	–	–	–	87	91	96
Vote 4 - 4.Community Services	–	10 936	10 936	–	61 636	59 742	63 092
Vote 5 - 5.Public Safety	–	–	–	–	135	142	149
Vote 6 - 6.Planning, Social & Economic Development	–	15 365	15 365	–	6 902	86	90
Vote 7 - 7.Human Settlement	–	–	–	–	17	18	19
Vote 8 - 8.Infrastructure	–	226 289	226 289	–	112 304	43 084	47 436
Capital single-year expenditure sub-total	–	252 590	252 590	–	182 027	105 694	113 633
Total Capital Expenditure - Vote	–	252 590	252 590	–	182 027	105 694	113 633

For 2011/12 an amount of R112. Million has been appropriated for the development of infrastructure which represents 61 per cent of the total capital budget.

1.7 Annual Budget Tables -

The following **pages** present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2012/13 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page.

Table 8 MBRR Table A1 - Budget Summary

Description	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousands	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Financial Performance							
Property rates	128 765	129 473	129 473	–	137 241	145 476	154 204
Service charges	249 496	225 949	225 949	–	249 821	279 552	308 809
Investment revenue	2 449	3 949	3 949	–	3 949	3 949	3 949
Transfers recognised - operational	187 883	191 074	191 074	–	181 848	184 798	198 032
Other own revenue	55 601	83 686	83 686	–	86 961	91 005	95 303
Total Revenue (excluding capital transfers and contributions)	624 194	634 132	634 132	–	659 821	704 779	760 298
Employee costs	222 759	221 843	221 843	–	235 153	249 262	264 218
Remuneration of councillors	16 813	19 474	19 474	–	20 643	21 881	23 194
Depreciation & asset impairment	28 856	22 929	22 929	–	24 075	25 279	26 543
Finance charges	14 967	6 001	6 001	–	6 001	6 001	6 001
Materials and bulk purchases	137 320	149 320	149 320	–	169 478	194 900	224 135
Transfers and grants	4 400	4 400	4 400	–	4 400	4 400	4 400
Other expenditure	191 212	200 621	200 621	–	197 646	198 969	207 420
Total Expenditure	616 328	624 588	624 588	–	657 397	700 693	755 911
Surplus/(Deficit)	7 866	9 544	9 544	–	2 424	4 087	4 387
Transfers recognised - capital	–	211 135	211 135	–	145 546	101 607	134 246
Contributions recognised - capital & contributed assets	(7 866)	(9 544)	(9 544)	–	(2 424)	(4 087)	(4 387)
Surplus/(Deficit) after capital transfers & contributions	0	211 135	211 135	–	145 546	101 607	134 246
Surplus/(Deficit) for the year	0	211 135	211 135	–	145 546	101 607	134 246
Capital expenditure & funds sources							
Capital expenditure	–	155 734	155 734	–	2 424	4 087	4 387
Transfers recognised - capital	–	211 135	211 135	–	179 602	101 607	109 246
Borrowing	–	33 711	33 711	–	–	–	–
Internally generated funds	–	7 744	7 744	–	2 424	4 087	4 387
Total sources of capital funds	–	252 590	252 590	–	182 027	105 694	113 633

Financial position							
Total current assets	480 283	389 493	418 349	–	403 411	454 638	514 654
Total non current assets	903 976	1 141 920	1 113 064	–	1 297 447	1 373 776	1 481 479
Total current liabilities	207 652	184 643	184 643	–	179 369	210 201	248 559
Total non current liabilities	96 162	82 086	82 086	–	77 202	72 318	67 434
Community wealth/Equity	1 080 444	1 264 684	1 264 684	–	1 444 287	1 545 894	1 680 140
Cash flows							
Net cash from (used) operating	–	207 903	252 178	–	150 867	109 484	146 674
Net cash from (used) investing	–	(213 451)	(220 149)	–	(147 970)	(105 694)	(138 633)
Net cash from (used) financing	–	8 227	8 227	–	(5 484)	(5 484)	(5 484)
Cash/cash equivalents at the year end	–	30 977	68 554	28 298	28 390	26 697	29 254
Cash backing/surplus reconciliation							
Cash and investments available	258 344	190 788	228 365	–	154 145	152 452	155 009
Application of cash and investments	186 722	167 063	60 681	–	13 058	(2 319)	(14 320)
Balance - surplus (shortfall)	71 623	23 725	167 684	–	141 087	154 771	169 329
Asset management							
Asset register summary (WDV)	903 796	1 141 764	1 112 907	42 242	42 242	1 297 291	1 373 619
Depreciation & asset impairment	28 856	22 929	22 929	24 075	24 075	25 279	26 543
Renewal of Existing Assets	–	–	–	–	–	–	–
Repairs and Maintenance	–	–	–	–	–	–	–
Free services							
Cost of Free Basic Services provided	4 400	4 400	4 400	4 400	4 400	4 400	4 400
Revenue cost of free services provided	4 400	4 400	4 400	4 400	4 400	4 400	4 400

Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality’s budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality’s commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
    a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF

b. Capital expenditure is balanced by capital funding sources, of which
    i. Transfers recognised is reflected on the Financial Performance Budget;
    ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
    iii. Internally generated funds is financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.

4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

Table 9 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	Ref	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	1	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue – Standard							
Governance and administration		334 133	367 080	367 080	381 162	394 495	418 736
Executive and council		836	836	836	9 139	–	–
Budget and treasury office		332 985	364 868	364 868	370 563	392 947	417 095
Corporate services		312	1 376	1 376	1 459	1 548	1 642
Community and public safety		22 488	31 547	31 547	75 451	74 413	78 772
Community and social services		431	369	369	391	414	439
Sport and recreation		218	11 154	11 154	231	245	260
Public safety		12 101	12 146	12 146	5 339	5 681	6 046
Housing		9 738	7 879	7 879	8 352	8 853	9 384
Health		–	–	–	61 139	59 220	62 644
Economic and environmental services		19 308	93 315	93 315	24 589	16 519	17 663
Planning and development		6 485	23 359	23 359	1 146	1 215	1 288
Road transport		12 823	69 956	69 956	23 443	15 304	16 375
Environmental protection		–	–	–	–	–	–
Trading services		247 712	353 325	353 325	324 165	320 959	379 373
Electricity		225 699	330 397	330 397	299 642	294 728	351 315
Water		–	–	–	–	–	–
Waste water management		–	–	–	–	–	–
Waste management		22 014	22 928	22 928	24 524	26 231	28 058
Other	4	–	–	–	–	–	–
Total Revenue – Standard	2	623 642	845 267	845 267	805 367	806 386	894 544
Expenditure – Standard							
Governance and administration		226 826	222 876	222 876	235 987	240 911	251 739
Executive and council		42 698	43 350	43 350	52 917	46 222	48 757
Budget and treasury office		129 828	122 796	122 796	124 351	132 687	137 512
Corporate services		54 300	56 730	56 730	58 719	62 002	65 470
Community and public safety		112 068	111 711	111 711	109 470	115 900	122 709
Community and social services		7 980	8 014	8 014	8 236	8 722	9 237
Sport and recreation		13 405	12 434	12 434	12 939	13 695	14 494
Public safety		60 055	62 267	62 267	57 945	61 369	64 995
Housing		4 380	3 470	3 470	3 608	3 811	4 026
Health		26 247	25 525	25 525	26 741	28 303	29 957
Economic and environmental services		70 361	69 181	69 181	60 539	63 920	67 491
Planning and development		24 723	26 069	26 069	19 778	20 870	22 024

Road transport		45 639	43 112	43 112	40 761	43 050	45 468
Environmental protection		–	–	–	–	–	–
Trading services		214 387	230 364	230 364	253 825	284 048	318 359
Electricity		167 973	183 702	183 702	205 570	233 009	264 375
Water		–	–	–	–	–	–
Waste water management		1 217	1 518	1 518	1 602	1 695	1 794
Waste management		45 197	45 144	45 144	46 653	49 344	52 190
Other	4	–	–	–	–	–	–
Total Expenditure – Standard	3	623 642	634 132	634 132	659 821	704 779	760 298
Surplus/(Deficit) for the year		–	211 135	211 135	145 546	101 607	134 246

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity, and Waste water functions, but not the Waste management function. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.

Table 10 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	Ref	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue by Vote	1						
Vote 1 - 1.Executive and Council		1 058	1 300	1 300	9 631	522	555
Vote 2 - 2.Finance and Asset Management		342 723	372 747	372 747	378 915	401 800	426 479
Vote 3 - 3.Corporate Services		420	1 007	1 007	1 067	1 131	1 199
Vote 4 - 4.Community Services		22 055	33 920	33 920	85 723	85 515	90 769
Vote 5 - 5.Public Safety		24 874	25 450	25 450	19 574	20 913	22 344
Vote 6 - 6.Planning, Social & Economic Development		5 947	22 312	22 312	37	39	41
Vote 7 - 7.Human Settlement		775	1 275	1 275	1 352	1 433	1 519
Vote 8 - 8.Infrastructure		225 789	387 255	387 255	309 068	295 032	351 638
Total Revenue by Vote	2	623 642	845 267	845 267	805 367	806 386	894 544
Expenditure by Vote to be appropriated	1						
Vote 1 - 1.Executive and Council		56 063	57 742	57 742	67 797	61 952	65 386
Vote 2 - 2.Finance and Asset Management		142 495	134 466	134 466	136 057	145 042	150 552
Vote 3 - 3.Corporate Services		27 593	29 953	29 953	31 378	33 123	34 965
Vote 4 - 4.Community Services		80 538	79 110	79 110	82 102	86 857	91 889
Vote 5 - 5.Public Safety		68 209	69 207	69 207	65 191	69 027	73 089
Vote 6 - 6.Planning, Social & Economic Development		25 995	27 345	27 345	20 907	22 061	23 279
Vote 7 - 7.Human Settlement		8 026	8 118	8 118	8 543	9 053	9 594
Vote 8 - 8.Infrastructure		214 723	228 191	228 191	247 845	277 665	311 545
Total Expenditure by Vote	2	623 642	634 132	634 132	659 821	704 779	760 298
Surplus/(Deficit) for the year	2	–	211 135	211 135	145 546	101 607	134 246

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote.

Table 11 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)

Description	Ref	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	1	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue By Source								
Property rates	2	128 765	129 473	129 473	–	137 241	145 476	154 204
Property rates - penalties & collection charges			–	–	–	–	–	–
Service charges - electricity revenue	2	224 488	200 799	200 799	–	222 941	250 823	278 104
Service charges - water revenue	2	–	–	–	–	–	–	–
Service charges - sanitation revenue	2	–	–	–	–	–	–	–
Service charges - refuse revenue	2	21 360	22 054	22 054	–	23 598	25 250	27 017
Service charges – other		3 649	3 097	3 097	–	3 282	3 479	3 688
Rental of facilities and equipment		14 779	13 219	13 219	–	14 012	14 853	15 744
Interest earned - external investments		2 449	3 949	3 949	–	3 949	3 949	3 949
Interest earned - outstanding debtors		18 316	22 316	22 316	–	22 316	22 316	22 316
Dividends received			–	–	–	–	–	–
Fines		1 942	1 972	1 972	–	2 110	2 257	2 415
Licences and permits		12 946	13 489	13 489	–	14 433	15 444	16 525
Agency services		–	2	2	–	2	2	2
Transfers recognised - operational		187 883	191 074	191 074	–	181 848	184 798	198 032
Other revenue	2	7 088	32 158	32 158	–	34 087	36 133	38 300
Gains on disposal of PPE		530	530	530	–	–	–	–
Total Revenue (excluding capital transfers and contributions)		624 194	634 132	634 132	–	659 821	704 779	760 298
Expenditure By Type								
Employee related costs	2	222 759	221 843	221 843	–	235 153	249 262	264 218
Remuneration of councillors		16 813	19 474	19 474	–	20 643	21 881	23 194
Debt impairment	3	16 655	16 655	16 655	–	16 932	18 746	18 406
Depreciation & asset impairment	2	28 856	22 929	22 929	–	24 075	25 279	26 543
Finance charges		14 967	6 001	6 001	–	6 001	6 001	6 001
Bulk purchases	2	137 320	149 320	149 320	–	169 478	194 900	224 135
Other materials	8	–	–	–	–	–	–	–
Contracted services		9 439	10 879	10 879	–	11 467	12 086	12 739
Transfers and grants		4 400	4 400	4 400	–	4 400	4 400	4 400
Other expenditure	4, 5	165 118	173 087	173 087	–	169 248	168 137	176 275
Loss on disposal of PPE		–	–	–	–	–	–	–
Total Expenditure		616 328	624 588	624 588	–	657 397	700 693	755 911
Surplus/(Deficit)		7 866	9 544	9 544	–	2 424	4 087	4 387
Transfers recognised – capital		–	211 135	211 135	–	145 546	101 607	134 246
Contributions recognised – capital	6	(7 228)	(9 544)	(9 544)	–	(2 424)	(4 087)	(4 387)

Contributed assets		(639)						
Surplus/(Deficit) after capital transfers & contributions		0	211 135	211 135	–	145 546	101 607	134 246
Taxation								
Surplus/(Deficit) after taxation		0	211 135	211 135	–	145 546	101 607	134 246
Attributable to minorities								
Surplus/(Deficit) attributable to municipality		0	211 135	211 135	–	145 546	101 607	134 246
Share of surplus/ (deficit) of associate	7							
Surplus/(Deficit) for the year		0	211 135	211 135	–	145 546	101 607	134 246

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

1. Total revenue is R659 million in 2012/13 and escalates to R760million by 2014/15. This represents a year-on-year increase of 15.3 per cent for the King Sabata Dalindyebo.
2. Revenue to be generated from property rates is R137 million in the 2012/13 financial year and increases to R154 million by 2014/15 which represents 12.4 per cent of the operating revenue base of the Municipality and therefore remains a significant funding source for the municipality.

Services charges relating to Electricity and refuse removal constitutes the biggest component of the revenue basket of the Municipality totalling R246million for the 2012/13 financial year and increasing to R305million by 2014/15.

3. Bulk purchases have significantly increased from R169 million to R224million. These increases can be attributed to the substantial increase in the cost of bulk Electricity from Eskom.
4. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

Table 12 MBRR Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

Vote Description	Ref	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	1	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Single-year expenditure to be appropriated	2							
Vote 1 - 1.Executive and Council		–	–	–	–	356	374	390
Vote 2 - 2.Finance and Asset Management		–	–	–	–	589	2 157	2 360
Vote 3 - 3.Corporate Services		–	–	–	–	87	91	96
Vote 4 - 4.Community Services		–	10 936	10 936	–	61 636	59 742	63 092
Vote 5 - 5.Public Safety		–	–	–	–	135	142	149
Vote 6 - 6.Planning, Social & Economic Development		–	15 365	15 365	–	6 902	86	90
Vote 7 - 7.Human Settlement		–	–	–	–	17	18	19
Vote 8 - 8.Infrastructure		–	226 289	226 289	–	112 304	43 084	47 436
Capital single-year expenditure sub-total		–	252 590	252 590	–	182 027	105 694	113 633
Total Capital Expenditure – Vote		–	252 590	252 590	–	182 027	105 694	113 633
Funded by:								
National Government			164 205	164 205		84 407	42 387	46 602
Provincial Government			46 279	46 279		61 139	59 220	62 644
District Municipality			–	–				
Other transfers and grants			651	651		34 056	–	–
Transfers recognised – capital	4	–	211 135	211 135	–	179 602	101 607	109 246
Public contributions & donations	5		–	–				
Borrowing	6		33 711	33 711				
Internally generated funds			7 744	7 744		2 424	4 087	4 387
Total Capital Funding	7	–	252 590	252 590	–	182 027	105 694	113 633

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations.
3. Single-year capital expenditure has been appropriated at R182 million for the 2012/13 financial year.

4. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.
5. The capital programme is funded from capital and provincial grants and transfers, public contributions and donations, borrowing and internally generated funds from current year surpluses.

Table 13 MBRR Table A6 - Budgeted Financial Position

Description R thousand	Budget Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
ASSETS							
Current assets							
Cash	107 030	17 266	54 843		14 680	12 987	15 543
Call investment deposits	151 314	159 811	159 811	–	125 755	125 755	125 755
Consumer debtors	138 825	80 747	72 026	–	131 308	184 228	241 687
Other debtors	48 027	42 532	42 532		42 532	42 532	42 532
Current portion of long-term receivables		–	–		–	–	–
Inventory	35 087	75 426	75 426		75 426	75 426	75 426
Total current assets	480 283	375 782	404 638	–	389 700	440 927	500 943
Non current assets							
Long-term receivables	180	157	157		157	157	157
Investments		–	–		–	–	–
Investment property	31 783	41 851	41 851		41 851	41 851	41 851
Investment in Associate		–	–		–	–	–
Property, plant and equipment	871 444	888 387	859 531	–	898 368	873 090	846 547
Agricultural		–	–		–	–	–
Biological		–	–		–	–	–
Intangible	569	390	390		390	390	390
Other non-current assets		–	–		–	–	–
Total non current assets	903 976	930 785	901 929	–	940 767	915 488	888 945
TOTAL ASSETS	1 384 258	1 306 567	1 306 567	–	1 330 467	1 356 415	1 389 888
LIABILITIES							
Current liabilities							
Bank overdraft		–					
Borrowing	8 134	15 650	15 650	–	15 650	15 650	15 650
Consumer deposits	1 059	1 294	1 294		1 294	1 294	1 294
Trade and other payables	186 722	167 699	167 699	–	162 425	193 257	231 615
Provisions	11 737	–	–		–	–	–
Total current liabilities	207 652	184 643	184 643	–	179 369	210 201	248 559
Non current liabilities							
Borrowing	96 162	46 618	46 618	–	41 734	36 851	31 967
Provisions	–	21 757	21 757	–	21 757	21 757	21 757
Total non current liabilities	96 162	68 375	68 375	–	63 491	58 607	53 724
TOTAL LIABILITIES	303 814	253 018	253 018	–	242 861	268 809	302 282
NET ASSETS	1 080 444	1 053 550	1 053 550	–	1 087 606	1 087 606	1 087 606
COMMUNITY WEALTH/EQUITY							
Accumulated Surplus/(Deficit)	991 617	906 013	906 013		940 070	940 070	940 070
Reserves	88 828	147 536	147 536	–	147 536	147 536	147 536
Minorities' interests							
TOTAL COMMUNITY WEALTH/EQUITY	1 080 444	1 053 550	1 053 550	–	1 087 606	1 087 606	1 087 606

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table A6 is supported by an extensive table of notes (SA3 which can be found on page 102) providing a detailed analysis of the major components of a number of items, including:
   - Call investments deposits;
   - Consumer debtors;
   - Property, plant and equipment;
   - Trade and other payables;
   - Provisions non-current;
   - Changes in net assets; and
   - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators.

Table 14 MBRR Table A7 - Budgeted Cash Flow Statement

Description	Ref	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
CASH FLOW FROM OPERATING ACTIVITIES							
Receipts							
Ratepayers and other		2 258	409 154		406 925	444 761	482 846
Government – operating	1	3 191	191 074		181 848	184 798	198 032
Government – capital	1	211 135	211 135		145 546	101 607	134 246
Interest		5 420	25 819		3 554	3 554	3 554
Dividends		–	–		–	–	–
Payments							
Suppliers and employees		(21 944)	(574 603)		(577 206)	(615 435)	(666 603)
Finance charges		7 843	(6 001)		(5 401)	(5 401)	(5 401)
Transfers and Grants	1	–	(4 400)		(4 400)	(4 400)	–
NET CASH FROM/(USED) OPERATING ACTIVITIES		207 903	252 178	–	150 867	109 484	146 674
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
Proceeds on disposal of PPE		–	530		–	–	–
Decrease (Increase) in non-current debtors							
Decrease (increase) other non-current receivables							
Decrease (increase) in non-current investments							
Payments							
Capital assets		(213 451)	(220 679)		(147 970)	(105 694)	(138 633)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(213 451)	(220 149)	–	(147 970)	(105 694)	(138 633)
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
Short term loans		–	–		–	–	–
Borrowing long term/refinancing		13 711	13 711		–	–	–
Increase (decrease) in consumer deposits		–	–		–	–	–
Payments							
Repayment of borrowing		(5 484)	(5 484)		(5 484)	(5 484)	(5 484)
NET CASH FROM/(USED) FINANCING ACTIVITIES		8 227	8 227	–	(5 484)	(5 484)	(5 484)
NET INCREASE/ (DECREASE) IN CASH HELD		2 679	40 256	–	(2 587)	(1 693)	2 557
Cash/cash equivalents at the year begin:	2	28 298	28 298	28 298	30 977	28 390	26 697
Cash/cash equivalents at the year end:	2	30 977	68 554	28 298	28 390	26 697	29 254

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. The 2012/13 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2010) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 25 August 2010. Key dates applicable to the process were:

TIMEFRAME		OBJECTIVE	ACTIVITY	RESPONSIBILITY	TARGET DATE
(A)	**11 August 2011- 31 August 2011**	Compilation and approval of a proposed budget timetable in line with the budget reforms from National Treasury.	▪ Compilation of a proposed budget timetable. ▪ Approval of proposed budget timetable by Mayoral Committee. ▪ Approval of proposed budget timetable by council.	CFO Municipal Manager/CFO Municipal Manager/Executive Mayor	15 August 2011 22 August 2011 31 August 2011
(B)	**1 July 2011- 30 March 2012**	Integrated Development Plan to be reviewed (Detail dates to be determined and submitted to Council).	▪ The IDP as approved by council will be used as the base for the compilation of the budget.	Municipal Manager	02 April 2012
(C)	**03-31 October 2011**	Strategic Alignment Workshop	▪ Completion of a Strategic Alignment Workshop to determine objectives for the 2012/2013 Budget Process.	Municipal Manager/CFO	No later than 31 October 2011
(D)	**1 November 2011- 30 March 2012**	Compilation and approval of operational Plans, a Budget Policy/Guidelines and tariff Policy in line with the Integrated Development Plan as mentioned in (C) above.	▪ Workshop on the compilation of SDBIP's. ▪ Compilation of operation plans by departments. ▪ Review budget policy/guidelines and tariff policy. ▪ Submission of SDBIP's, budget policy/ guidelines	CFO Heads of Departments CFO	Date to be determined *These three tasks are to run in parallel with the preparation of the budget and must be submitted to*

			and tariff policy to and approval by the Mayoral Committee.	Municipal Manager/ Heads of Departments.	*Council on 31 March 2012 when the budget is tabled.*
(E)	**1 November 2011- 15 December 2011**	Draft operating and capital budgets in line with approved operational plans, budget guidelines and secured financing sources.	▪ Heads of Departments to prepare and submit first draft operating and capital budget s in line with the approved operational plans, budget guidelines and secured financing sources.	Heads of Departments	15 December 2011
(F)	**15 December 2011- 27 February 2012**	Revision of and approval by Council of the 2011/2012 adjustments budget.	▪ Revision of the 2011/2012 operational and capital budget. ▪ Compilation of the MFMA Sec 72 Report and submission to the Executive Mayor. ▪ Approval of 2011/2012 adjustments budget by Mayoral Committee. ▪ Approval of 2011/2012 adjustments budget by Council.	CFO/ Heads of Departments Municipal Manager/ CFO Municipal Manager/ CFO Municipal Manager/	23 January 2012 30 January 2012 20 February 2012

				Executive Mayor	27 February 2012
(G)	**15 December 2011- 23 January 2012**	First draft of the operational and capital budget for the 2012/2013 to 2014/2015 financial years consolidated and submitted to the Mayoral Committee for discussion.	▪ Finance Department to consolidate and prepare the first draft capital and operating budget in the following formats: ▪ High level consolidated format; ▪ Line item budget; ▪ Proposed Tariffs. ▪ Evaluation of and discussions on first draft by Mayoral Committee in Line with operational plans, budget guidelines and IDP.	CFO/General Manager Budgeting/Manager Budgeting/ Heads of Departments Municipal Manager/ CFO/ Heads of Departments.	9 January 2012 23 January 2012
(H)	**24 January 2012- 6 February 2012**	Second draft of the operational and capital budget for the 2012/2013 to 2014/2015 financial years consolidated and submitted	▪ Finance Unit, in conjunction with Advisors, to consolidate and prepare the second draft capital and operating budget.	CFO/General Manager Budgeting/Manager Budgeting/Heads of Departments	31 January 2012

		to the Mayoral Committee for discussion.	▪ Evaluation of and discussions on the second draft by Mayoral Committee.	Municipal Manager/CFO	6 February 2012
(I)	**8 February 2012- 15 February 2012**	Second draft budget circulated to the different Portfolio Committees for comments.	▪ Evaluation of and discussions on second draft by Portfolio committees.	Chairperson of the Portfolio Committees/ Heads of Departments	15 February 2012
(J)	**15 February 2012- 5 March 2012**	Evaluation and discuss of proposals from Portfolio Committees by the Mayoral Committee.	▪ Evaluation and discussions of proposals from Portfolio Committees by the Mayoral Committee.	Municipal Manager/CFO	5 March 2012
(K)	**5 March 2012- 12 March 2012**	Third draft of the operational and capital budget for the 2012/2013 to 2014/2015 financial years consolidated and submitted to the Mayoral Committee for discussion.	▪ Finance Department to consolidate and prepare the third draft capital and operating budget. ▪ Evaluation and finalisation of the draft 2012/2013 to 2014/2015 operational and capital budgets by the Mayoral Committee.	CFO/General Manager Budgeting/Manager Budgeting/Heads of Departments Municipal Manager/CFO	5 March 2012 12 March 2012
(L)	**12 March 2012- 1**	Final draft of the operational and capital budgets for the 2012/2013 to 2014/2015 financial years consolidated	▪ Finance Department to consolidate and prepare the final draft capital and operating budgets. ▪ Evaluation of and	CFO/General Manager Budgeting/Manager Budgeting/Heads of Departments	22 March 2012

	April 2012	and tabled in Council	discussions on final draft capital and operating budget by Council.	Municipal Manager/Executive Mayor	1 April 2012
(M)	**1 April 2012- 30 April 2012**	Draft budget to be consulted with the Community, Stakeholders, District Municipality, Provincial and National Government.	▪ Consultation on final draft budget through formal meetings with possible stakeholders.	Executive Mayor/Municipal Manager/CFO	30 April 2012
(N)	**30 April 2012- 16 May 2012**	Final draft of the operational and capital budgets for the 2012/2013 to 2014/2015 financial years consolidated and submitted to the Mayoral Committee for discussion.	▪ Finance Department to consolidated and prepare the final draft capital and operating budgets. ▪ Evaluation of and discussions on final draft by Mayoral Committee.	CFO/Heads of Departments Municipal Manager/CFO	9 May 2012 16 May 2012
(O)	**16 May 2012- 28 May 2012**	Final draft of the operational and capital budgets for the 2012/2013 to 2014/2015 financial years consolidated and submitted to the Council for approval.	Finance Department to consolidate and prepare the final capital and operating budgets. Adoption of budget by Council.	CFO/Heads Departments Municipal Manager/Executive Mayor	21 May 2012 28 May 2012

(P)	**28 May 2012- 13 June 2012**	Submission of Approved operational and capital budget for the 2012/2013 to 2014/2015 financial years to National Treasury.	▪ Finance Department to submit approved budget to Provincial Treasury and National Treasury.	CFO	13 June 2012
(Q)	**29 May 2012- 29 June 2012**	Preparations for implementation of the approved Budget.	▪ Finance Department to finalise all preparations to ensure proper and timeous implementation of budget, including promulgation of tariffs. ▪ Municipal Manager to submit draft SDBIP's and draft performance agreements of all section 57 personnel to Executive Mayor. ▪ Executive Mayor to approve SDBIP's and note performance agreements.	CFO Municipal Manager Municipal Manager/Executive Mayor	30 June 2012 15 June 2012 30 June 2012

There were no some deviations from the key dates set out in the Budget Time Schedule tabled in Council.
MFMA deadlines in terms of submission of reports such as midyear assessment and tabling and submission of reports were however met

2.1.2 IDP and Service Delivery and Budget Implementation Plan

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

With the compilation of the 2012/13 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2011/12 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3 Financial Modeling and Key Planning Drivers

As part of the compilation of the 2012/13 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2012/13 MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2011/12 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 51 , 54,58 and 59 has been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation

The draft 2012/13 MTREF as tabled before Council on 30 March 2012 for community consultation was published on the municipality's website, and hard copies were made available at customer care offices, municipal notice boards and various libraries. The opportunity to give feedback was also communicated on the Municipality's website, and the Municipality's call centre was engaged in collecting inputs via e-mail, fax and SMS.

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees were utilised to facilitate the community consultation process public briefing sessions. Other stakeholders involved in the consultation included churches, non-governmental institutions and community-based organisations.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects will be addressed, and where relevant will be considered as part of the finalisation of the 2012/13 MTREF. Feedback and responses to the submissions received will be made available on request.

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2011/12 MTREF and further planning refinements that have directly informed the compilation of the budget:

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
    - Provide Electricity;
    - Provide waste removal;
    - Provide roads and storm water;
    - Provide municipality planning services; and
    - Maintaining the infrastructure of the Municipality.

2. Economic growth and development that leads to sustainable job creation by:
    - Ensuring the is a clear structural plan for the Municipality;
    - Ensuring planning processes function in accordance with set timeframes;
    - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.

3. Fight poverty and build clean, healthy, safe and sustainable communities:

- Effective implementation of the Indigent Policy;;
- Extending waste removal services and ensuring effective municipality cleansing;
- Working with strategic partners such as SAPS to address crime;
- Ensuring save working environments by effective enforcement of building and health regulations;
- Promote viable, sustainable communities through proper zoning; and
- Promote environmental sustainability by protecting wetlands and key open spaces.

4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:
    - Optimising effective community participation in the ward committee system; and
    - Implementing Batho Pele in the revenue management strategy.

5.1 Ensure financial sustainability through:
- Reviewing the use of contracted services
- Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan

5.2 Optimal institutional transformation to ensure capacity to achieve set objectives
- Review of the organizational structure to optimize the use of personnel;

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by the Municipality by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the Municipality undertakes an extensive planning and developmental strategy which primarily focuses on a longer-term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the Municipality so as to promote greater equity and enhanced opportunity. The strategy specifically targets future developmental opportunities in traditional dormitory settlements. It provides direction to the Municipality's IDP, associated sectoral plans and strategies, and the allocation of resources of the Municipality and other service delivery partners.

This development strategy introduces important policy shifts which have further been translated into seven strategic focus areas/objectives as outlined below:

- Developing dormant areas;
- Enforcing hard development lines – so as to direct private investment;
- Maintaining existing urban areas;
- Strengthening key economic clusters;
- Building social cohesion;
- Strong developmental initiatives in relation to the municipal institution as a whole; and
- Sound financial fundamentals.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the fourth revised IDP, including:

- Strengthening the analysis and strategic planning processes of the Municipality;
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2012/13 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn will be linked directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

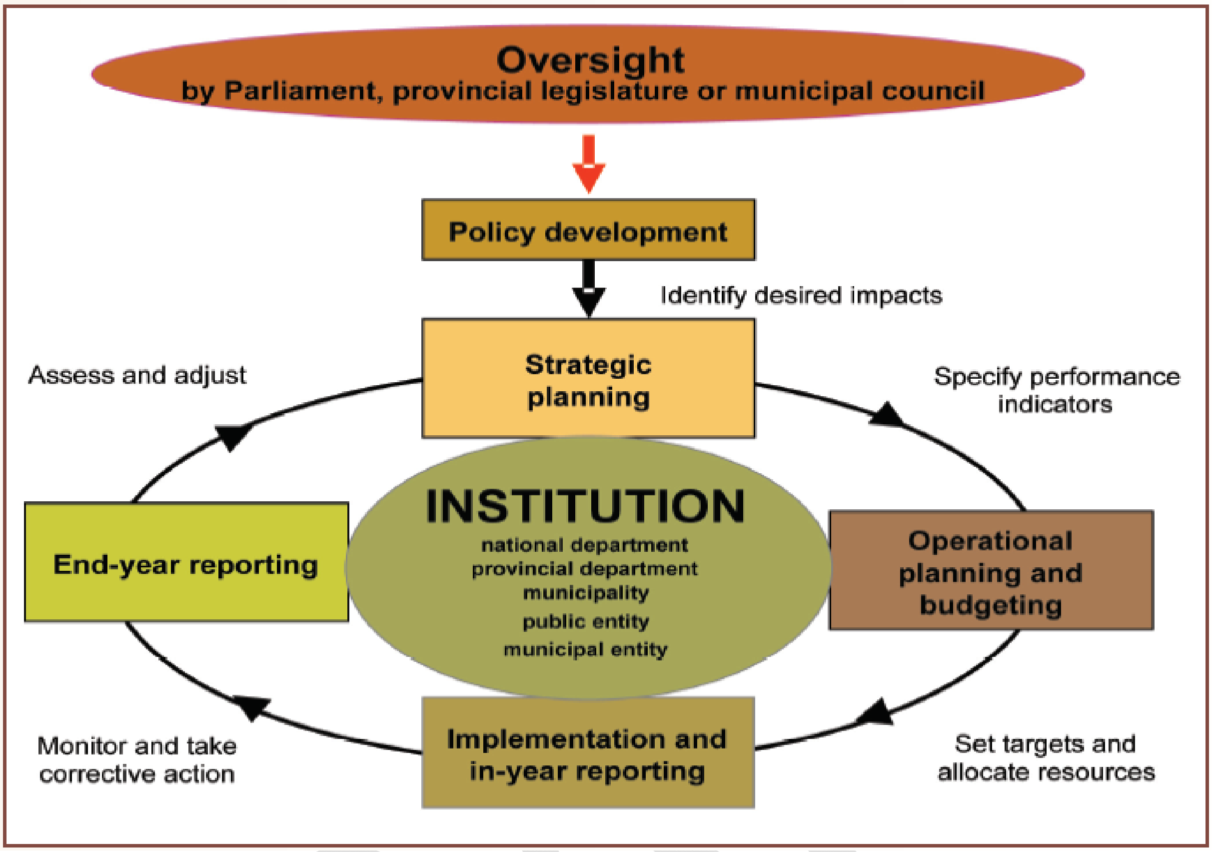

Figure 1 Planning, budgeting and reporting cycle

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the ***Framework of Managing Programme Performance Information*** issued by the National Treasury:

2.3.1 Performance indicators and benchmarks

2.3.1.1 Borrowing Management

Capital expenditure in local government can be funded by capital grants, own-source revenue and long term borrowing. The ability of a municipality to raise long term borrowing is largely

dependent on its creditworthiness and financial position. As with all other municipalities, King Sabata Dalindyebo's borrowing strategy is primarily informed by the affordability of debt repayments. The structure of the Municipality's debt portfolio is dominated by annuity loans. The following financial performance indicators have formed part of the compilation of the 2011/12 MTREF:

- *Borrowing to asset ratio* is a measure of the long-term borrowing as a percentage of the total asset base of the municipality.

Capital charges to operating expenditure is a measure of the cost of borrowing in relation to the operating expenditure.
Borrowing funding of own capital expenditure measures the degree to which own capital expenditure (excluding grants and contributions) has been funded by way of borrowing.
In summary, various financial risks could have a negative impact on the future borrowing capamunicipality of the municipality. In particular, the continued ability of the Municipality to meet its revenue targets and ensure its forecasted cash flow targets are achieved will be critical in meeting the repayments of the debt service costs. As part of the compilation of the King Sabata Dalindyebo MTREF the potential of smoothing out the debt profile over the longer term will be investigated.

2.3.1.2 Safety of Capital

- *The debt-to-equity ratio* is a financial ratio indicating the relative proportion of equity and debt used in financing the municipality's assets. The indicator is based on the total of loans, creditors, overdraft and tax provisions as a percentage of funds and reserves.
- *The gearing ratio* is a measure of the total long term borrowings over funds and reserves.

2.3.1.3 Liquidity

- *Current ratio* is a measure of the current assets divided by the current liabilities and as a benchmark the Municipality has set a limit of 1, hence at no point in time should this ratio be less than 1.
- *The liquidity ratio* is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations. As part of the longer term financial planning objectives this ratio will have to be set at a minimum of 1.

2.3.1.4 Revenue Management

- As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.

2.3.1.5 Creditors Management

- The Municipality has managed to ensure that creditors are settled within the legislated 30 days of receipt of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favourable impact on

suppliers' perceptions of risk of doing business with the Municipality, which is expected to benefit the Municipality in the form of more competitive pricing of tenders, as suppliers compete for the Municipality's business.

2.3.1.6 Other Indicators

- The Electricity distribution losses have been managed downwards from 12 per cent in the 2010/11 financial year to 10 per cent over the MTREF. The initiatives to ensure these targets are achieved include managing illegal connections and theft of Electricity by rolling out smart metering systems, including prepaid meters.
- Employee costs as a percentage of operating revenue continues to decrease over the MTREF. This is primarily owing to the high increase in bulk purchases which directly increase revenue levels, as well as increased allocation relating to operating grants and transfers.

- Similar to that of employee costs, repairs and maintenance as percentage of operating revenue is also decreasing owing directly to cost drivers such as bulk purchases increasing far above inflation. In real terms, repairs and maintenance has increased as part of the Municipality's strategy to ensure the management of its asset base.

2.3.2 Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the Municipality.

For the 2012/13 financial year registered indigents have been provided for in the budget.. In terms of the Municipality's indigent policy registered households are entitled to 50 kwh of Electricity, and free waste removal , as well as writing off of their property rates accounts.

2.4 Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.4.1 Review of credit control and debt collection procedures/policies

The Collection Policy as approved by Council in October 2010 is currently under review. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the consolidation of accounts In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

Most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, the registration of Indigents aims to reducing identifying qualifying indigents and also to provide indigents with free basis services.

The 2012/13 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 90 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the Municipality's cash levels. In addition, the potential of a payment incentive scheme is being investigated and if found to be viable will be incorporated into the policy.

2.4.2 Asset Management, Infrastructure Investment and Funding Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the Municipality's revenue base.
The Asset Management, Infrastructure and Funding Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

2.4.3 Budget Policy

The budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the Municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

2.4.4 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in September 2010. An amended policy will be considered by Council together with the draft budget and proposed amendments will be extensively consulted on.

2.4.5 Cash Management and Investment Policy

The Municipality's Cash Management and Investment Policy was approved by Council in January 2010. The aim of the policy is to ensure that the Municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduces time frames to achieve certain benchmarks. There are no proposed amendments to the policy.

2.4.6 Tariff Policies

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery.

All the above policies are available on the Municipality's website, as well as the following budget related policies:

- Property Rates Policy;
- Funding and Reserves Policy;
- Borrowing Policy;
- Budget Policy; and
- Basic Social Services Package (Indigent Policy).

2.5 Overview of budget assumptions

2.5.1 External factors

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipality's finances.

2.5.2 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2011/12 MTREF:

- National Government macro economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk Electricity ; and
- The increase in the cost of remuneration. Employee related costs comprise 36 per cent of total operating expenditure in the 2012/13 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget.

2.5.3 Interest rates for borrowing and investment of funds

The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions. The Municipality engages in a number of financing arrangements to minimise its interest rate costs and risk. However, for simplicity the 2012/13 MTREF is based on the assumption that all borrowings are undertaken using fixed interest rates for amortisation-style loans requiring both regular principal and interest payments. As part of the compilation of the King Sabata Dalindyebo MTREF the potential of smoothing out the debt profile over the long term will be investigated.

2.5.4 Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher that CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage (90 per cent) of annual billings. Cash flow is assumed to be 90 per cent of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

2.5.5 Growth or decline in tax base of the municipality

Debtors revenue is assumed to increase at a rate that is influenced by the consumer debtors collection rate, tariff/rate pricing, real growth rate of the Municipality, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth..

2.5.6 Salary increases

The collective agreement regarding salaries/wages came into operation on 1 July 2009 and shall remain in force until 30 June 2012. There is at this stage no strong evidence that salaries will increase by less than 6% or evidence that this will increase at a level below the recommended 5%. The results will only be known after finalisation of the negotiations between SALGA and employee trade unions.

2.5.7 Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

2.6 Overview of budget funding

2.6.1 Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term:

Table 15 Breakdown of the operating revenue over the medium-term

Description	Budget Year 2011/12					2012/13 Medium Term Revenue & Expenditure Framework				
R thousand	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	% Increase	Budget Year 2012/13	% Increase	Budget Year +1 2013/14	% Increase	Budget Year +2 2014/15
Revenue By Source	R' 000	R' 000	R' 000	R' 000		R' 000		R' 000		R' 000
Property rates	128 765	129 473	129 473	–	6%	137 241	6%	145 476	6%	154 204
Service charges	249 496	225 949	225 949	–	11%	249 821	12%	279 552	10%	308 809
Interest earned - external investments	2 449	3 949	3 949	–	0%	3 949	0%	3 949	0%	3 949
Transfers recognised - operational	187 883	191 074	191 074	–	-5%	181 848	2%	184 798	7%	198 032
Other revenue	55 601	83 686	83 686	–	4%	86 961	5%	91 005	5%	95 303
Total Revenue (excluding capital transfers and contributions)	624 194	634 132	634 132	–	4%	659 821	7%	704 779	8%	760 298
Total Expenditure	616 328	624 588	624 588	–	0	657 397	0	700 693	0	755 911
Surplus/(Deficit) for the year	7 866	9 544	9 544	–	(0)	2 424	0	4 087	(0)	4 387

Figure 2 Breakdown of operating revenue over the 2011/12 MTREF

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The Municipality derives most of its operational revenue from the provision of goods and services such as water, Electricity, sanitation and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, licenses and permits etc).

The revenue strategy is a function of key components such as:

- Growth in the municipality and economic development;
- Revenue management and enhancement;
- Achievement of a 90 per cent annual collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- And the ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

The proposed budget effects on significant line items for the 2012/13 are:

- Revenue to be generated from property rates is R137 million in the 2012/13 financial year and increases to R8 million by 2013/14 which represents 6 per cent of the operating revenue base of the Municipality. Revenue remains relatively constant over the medium-term. With the implementation of the Municipal Property Rates Act the basis of rating significantly changed.

- Services charges relating to Electricity and refuse removal constitutes the biggest component of the revenue basket of the Municipality totaling R249 million for the 2012/13 financial year and increasing to R30 million by 2013/14. For the 2012/13 financial year services charges amount to 37 per cent of the total revenue base..

- Operational grants and subsidies amount to R181 million and R184 million for 2013/14.

- Investment revenue contributes marginally to the revenue base of the Municipality with a budget allocation of R4 million, R4 million for the respective three financial years of the 2011/12 MTREF.

2.6.2 Medium-term outlook: capital revenue

The following table is a breakdown of the funding composition of the 2012/13 medium-term capital programme:

Table 16 Sources of capital revenue over the MTREF

Vote Description R thousand	2012/13 Medium Term Revenue & Expenditure Framework					
	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Funded by:						
National Government	164 205	164 205		84 407	42 387	46 602
Provincial Government	46 279	46 279		61 139	59 220	62 644
District Municipality	–	–				
Other transfers and grants	651	651		34 056	–	–
Transfers recognised – capital	211 135	211 135	–	179 602	101 607	109 246
Public contributions & donations	–	–				
Borrowing	33 711	33 711				
Internally generated funds	7 744	7 744		2 424	4 087	4 387
Total Capital Funding	252 590	252 590	–	182 027	105 694	113 633

Capital grants and receipts equates to 98 per cent of the total funding source which represents R179 million for the 2012/13 financial year.

2.6.3 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understandability for councillors and management. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government, which also enables cash from 'Ratepayers and other' to be provide for as cash inflow based on actual performance. In other words the *actual collection rate* of billed revenue., and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

Table 17 MBRR Table A7 - Budget cash flow statement

Description	Ref	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
CASH FLOW FROM OPERATING ACTIVITIES							
Receipts							
Ratepayers and other		2 258	409 154		406 925	444 761	482 846
Government – operating	1	3 191	191 074		181 848	184 798	198 032
Government – capital	1	211 135	211 135		145 546	101 607	134 246
Interest		5 420	25 819		3 554	3 554	3 554
Dividends		–	–		–	–	–
Payments							
Suppliers and employees		(21 944)	(574 603)		(577 206)	(615 435)	(666 603)
Finance charges		7 843	(6 001)		(5 401)	(5 401)	(5 401)
Transfers and Grants	1	–	(4 400)		(4 400)	(4 400)	–
NET CASH FROM/(USED) OPERATING ACTIVITIES		207 903	252 178	–	150 867	109 484	146 674
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
Proceeds on disposal of PPE		–	530		–	–	–

Decrease (Increase) in non-current debtors							
Decrease (increase) other non-current receivables							
Decrease (increase) in non-current investments							
Payments							
Capital assets		(213 451)	(220 679)		(147 970)	(105 694)	(138 633)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(213 451)	(220 149)	–	(147 970)	(105 694)	(138 633)
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
Short term loans		–	–		–	–	–
Borrowing long term/refinancing		13 711	13 711		–	–	–
Increase (decrease) in consumer deposits		–	–		–	–	–
Payments							
Repayment of borrowing		(5 484)	(5 484)		(5 484)	(5 484)	(5 484)
NET CASH FROM/(USED) FINANCING ACTIVITIES		8 227	8 227	–	(5 484)	(5 484)	(5 484)
NET INCREASE/ (DECREASE) IN CASH HELD		2 679	40 256	–	(2 587)	(1 693)	2 557
Cash/cash equivalents at the year begin:	2	28 298	28 298	28 298	30 977	28 390	26 697
Cash/cash equivalents at the year end:	2	30 977	68 554	28 298	28 390	26 697	29 254

The above table shows that cash and cash equivalents of the Municipality being at an average of R28 million over the MTREF.

Table 18 MBRR Table A8 - Cash backed reserves/accumulated surplus reconciliation

Description		Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Cash and investments available								
Cash/cash equivalents at the year end		–	30 977	68 554	28 298	28 390	26 697	29 254
Other current investments > 90 days		258 344	159 811	159 811	(28 298)	125 755	125 755	125 755
Non current assets – Investments		–	–	–	–	–	–	–
Cash and investments available:		258 344	190 788	228 365	–	154 145	152 452	155 009
Application of cash and investments								
Unspent conditional transfers		106 032	68 725	68 725	–	34 669	34 669	34 669
Unspent borrowing		–	–	–		–	–	–
Statutory requirements								
Other working capital requirements		80 690	98 338	(8 044)	–	(21 610)	(36 987)	(48 989)
Other provisions								
Long term investments committed		–	–	–	–	–	–	–
Reserves to be backed by cash/investments								
Total Application of cash and investments:		186 722	167 063	60 681	–	13 058	(2 319)	(14 320)

Surplus(shortfall)		71 623	23 725	167 684	–	141 087	154 771	169 329

From the above table it can be seen that the cash and investments available total R154 million in the 2012/13 financial year and decreases to R152 million by 2013/14 and increases again to R155 million in 2014/15. including the projected cash and cash equivalents as determined in the cash flow forecast.

The following is a breakdown of the application of this funding:

- Unspent conditional transfers (grants) are automatically assumed to be an obligation as the municipality has received government transfers in advance of meeting the conditions. Ordinarily, unless there are special circumstances, the municipality is obligated to return unspent conditional grant funds to the national revenue fund at the end of the financial year. In the past these have been allowed to 'roll-over' and be spent in the ordinary course of business, but this practice has been discontinued. In the 2011/12 financial the Municipality has received the necessary roll-over approval from the National Treasury as the funding appropriation relating to the unspent conditional grants could be motivated as part of existing projects.
- Most reserve fund cash-backing is discretionary in nature, but the reserve funds are not available to support a budget unless they are cash-backed. The reserve funds are not fully cash-backed. These include the rehabilitation of landfill sites and quarries.

2.6.3.1 Cash/cash equivalent position

The Municipality's forecast cash position was discussed as part of the budgeted cash flow statement. A 'positive' cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

If the municipality's forecast cash position is positive The forecasted cash and cash equivalents for the 2012/13 MTREF shows an average of R28 million for each respective financial year.

2.6.3.2 Cash plus investments less application of funds

The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement.

2.6.3.3 Monthly average payments covered by cash or cash equivalents

The purpose of this measure is to understand the level of financial risk should the municipality be under stress from a collection and cash in-flow perspective. Regardless of the annual cash position an evaluation should be made of the ability of the Municipality to meet monthly payments as and when they fall due. It is especially important to consider the position should the municipality be faced with an unexpected disaster that threatens revenue collection such as rate boycotts. This measure will have to be carefully monitored going forward.

2.6.3.4 Surplus/deficit excluding depreciation offsets

The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An 'adjusted' surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets.

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective and the first two measures in the table are therefore critical.

2.6.3.5 Cash receipts as a percentage of ratepayer and other revenue

This factor is a macro measure of the rate at which funds are 'collected'. This measure is intended to analyse the underlying assumed collection rate for the MTREF to determine the relevance and credibility of the budget assumptions contained in the budget.

2.6.3.6 Debt impairment expense as a percentage of billable revenue

This factor measures whether the provision for debt impairment is being adequately funded and is based on the underlying assumption that the provision for debt impairment (doubtful and bad debts) has to be increased to offset under-collection of billed revenues. The provision has been appropriated at at constant level this is due to the municipality employing a service provider to collect arrear revenue.

2.6.3.7 Capital payments percentage of capital expenditure

The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position.

2.6.3.8 Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)

The purpose of this measurement is to determine the proportion of a municipality's 'own-funded' capital expenditure budget that is being funded from borrowed funds to confirm MFMA compliance. Externally funded expenditure (by transfers/grants and contributions) has been be excluded.

2.6.3.9 Transfers/grants revenue as a percentage of Government transfers/grants available

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 per cent could indicate that not all grants as contained in the Division of Revenue Act (DoRA) have been budgeted for. The Municipality has budgeted for all transfers.

2.6.3.10 Consumer debtors change (Current and Non-current)

The purpose of these measures are to ascertain whether budgeted reductions in outstanding debtors are realistic. There are 2 measures shown for this factor; the change in current debtors and the change in long term receivables, both from the Budgeted Financial Position. Both measures show a relatively stable trend in line with the Municipality's policy of settling debtors accounts within 30 days.

2.6.3.11 Asset renewal/rehabilitation expenditure level

This measure has a similar objective to aforementioned objective relating to repairs andmaintenance. A requirement of the detailed capital budget (since MFMA Circular 28 which was issued in December 2005) is to categorise each capital project as a new asset or a renewal/rehabilitation project. The objective is to summarise and understand the proportion of budgets being provided for new assets and also asset sustainability. A declining or low level of renewal funding may indicate that a budget is not credible and/or sustainable and future revenue is not being protected, similar to the justification for 'repairs and maintenance' budgets.

2.7 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting
   Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality's website.

2. Internship programme
   The Municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. The municipality has 18 interns of the 18 three are completing their training at the end of the year. Since the introduction of the Internship programme the Municipality has successfully employed and trained 3 interns through this programme. Three additional interns have been appointed with effect from 1 December 2011.

3. Budget and Treasury Office
   The Budget and Treasury Office has been established in accordance with the MFMA. The department is however understaffed. The process of appointed key staff and the CFO is underway.

4. Audit Committee
   An Audit Committee has been established and is fully functional.

5. Service Delivery and Implementation Plan
   The detail SDBIP document is at a draft stage and will be finalised after approval of the 2012/13 MTREF in May 2012 directly aligned and informed by the 2012/13 MTREF.

6. Annual Report
   Annual report is compiled in terms of the MFMA and National Treasury requirements.

7. MFMA Training

The MFMA training module in electronic format is presented at the Municipality's internal centre and training is ongoing. There are also staff members that are being trained by various institutions.

8. Policies

Amendments to budget related policies have been made and will be tabled with the adjustment budget and finalised within the next two months..

2.8 Other supporting documents

Table 19 MBRR Table SA1 - Supporting detail to budgeted financial performance

Description R thousand	Current Year 2011/12 Original Budget	Current Year 2011/12 Adjusted Budget	Current Year 2011/12 Full Year Forecast	Current Year 2011/12 Pre-audit outcome	2012/13 Medium Term Revenue & Expenditure Framework Budget Year 2012/13	2012/13 Medium Term Revenue & Expenditure Framework Budget Year +1 2013/14	2012/13 Medium Term Revenue & Expenditure Framework Budget Year +2 2014/15
REVENUE ITEMS:							
<u>Property rates</u>							
Total Property Rates	128 765	129 473	129 473		137 241	145 476	154 204
less Revenue Foregone							
Net Property Rates	128 765	129 473	129 473	–	137 241	145 476	154 204
<u>Service charges - electricity revenue</u>							
Total Service charges - electricity revenue	224 488	200 799	200 799		222 941	250 823	278 104

less Revenue Foregone							
Net Service charges - electricity revenue	224 488	200 799	200 799	–	222 941	250 823	278 104
Service charges - refuse revenue							
Total refuse removal revenue	21 360	22 054	22 054		23 598	25 250	27 017
Total landfill revenue							
less Revenue Foregone							
Net Service charges - refuse revenue	21 360	22 054	22 054	–	23 598	25 250	27 017
Other Revenue by source							
List other revenue by source	7 088	32 158	32 158		34 087	36 133	38 300
Total 'Other' Revenue	7 088	32 158	32 158	–	34 087	36 133	38 300
EXPENDITURE ITEMS:							
Employee related costs							
Basic Salaries and Wages	131 251	130 086	130 086	–	137 891	146 164	154 934
Pension and UIF Contributions	27 869	26 520	26 520	–	28 111	29 797	31 585
Medical Aid Contributions	16 176	16 319	16 319	–	17 298	18 336	19 436
Overtime	6 710	7 234	7 234	–	7 668	8 128	8 616
Performance Bonus	310	253	253	–	268	284	301
Motor Vehicle Allowance	–	–	–	–	–	–	–
Cellphone Allowance	286	366	366	–	387	411	435
Housing Allowances	14 234	14 339	14 339	–	15 200	16 112	17 078
Other benefits and allowances	11 579	13 680	13 680	–	14 501	15 371	16 293
Payments in lieu of leave	10 845	9 697	9 697	–	10 279	10 895	11 549
Long service awards	3 499	3 350	3 350	–	3 551	3 764	3 989
Post-retirement benefit obligations	–	–	–	–	–	–	–
sub-total	222 759	221 843	221 843	–	235 153	249 262	264 218
Less: Employees costs capitalised to PPE							
Total Employee related costs	222 759	221 843	221 843	–	235 153	249 262	264 218
Contributions recognised - capital							
List contributions by contract	(7 228)	(9 544)	(9 544)	–	(2 424)	(4 087)	(4 387)
Total Contributions recognised - capital	(7 228)	(9 544)	(9 544)	–	(2 424)	(4 087)	(4 387)
Depreciation & asset impairment							
Depreciation of Property, Plant & Equipment	28 856	22 929	22 929	–	24 075	25 279	26 543
Lease amortisation	–	–	–	–	–	–	–
Capital asset impairment	–	–	–	–	–	–	–
Depreciation resulting from revaluation of PPE	–	–	–	–	–	–	–
Total Depreciation & asset impairment	28 856	22 929	22 929	–	24 075	25 279	26 543

Bulk purchases							
Electricity Bulk Purchases	137 320	149 320	149 320	–	169 478	194 900	224 135
Water Bulk Purchases	–	–	–	–	–	–	–
Total bulk purchases	137 320	149 320	149 320	–	169 478	194 900	224 135
Transfers and grants							
Cash transfers and grants	4 400	4 400	4 400	–	4 400	4 400	4 400
Non-cash transfers and grants	–	–	–	–	–	–	–
Total transfers and grants	4 400	4 400	4 400	–	4 400	4 400	4 400
Contracted services							
Contract services - LIfe savers and Fire Brigade	–	–	–	–	–	–	–
Contracted services - Refuse	–	–	–	–	–	–	–
Contracted services - Other	9 439	10 879	10 879	–	11 467	12 086	12 739
sub-total	9 439	10 879	10 879	–	11 467	12 086	12 739
Total contracted services	9 439	10 879	10 879	–	11 467	12 086	12 739
Other Expenditure By Type							
Collection costs	–	–	–	–	–	–	–
Contributions to 'other' provisions	639	639	639	–	674	710	749
General expenses	122 044	138 000	138 000	–	132 267	129 159	135 192
Internal Transfers/Recoveries	–	–	–	–	–	–	–
Repairs and maintenance (to be deleted)	42 435	34 447	34 447	–	36 307	38 267	40 334
Repairs and Maintenance by Expenditure Item							
Other Expenditure	42 435	34 447	34 447	–	36 307	38 267	40 334
Total Repairs and Maintenance Expenditure	42 435	34 447	34 447	–	36 307	38 267	40 334

Table 20 MBRR Table SA8 - Supporting detail to Performance indicators and benchmarks

Description of financial indicator	Basis of calculation	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Borrowing Management								
Credit Rating								
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	2.4%	1.8%	1.8%	0.0%	1.7%	1.6%	1.5%

Capital Charges to Own Revenue	Finance charges & Repayment of borrowing /Own Revenue	3.4%	2.6%	2.6%	0.0%	2.4%	2.2%	2.0%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure excl. transfers and grants and contributions	0.0%	33.1%	33.1%	0.0%	0.0%	0.0%	0.0%
Safety of Capital								
Gearing	Long Term Borrowing/ Funds & Reserves	108.3%	40.9%	40.9%	0.0%	37.6%	34.3%	31.0%
Liquidity								
Current Ratio	Current assets/current liabilities	2.3	2.1	2.3	–	2.2	2.2	2.1
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	2.3	2.1	2.3	–	2.2	2.2	2.1
Liquidity Ratio	Monetary Assets/Current Liabilities	1.2	1.0	1.2	–	0.9	0.7	0.6
Revenue Management								
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing	0.0%	0.0%	0.5%	93.3%	0.0%	85.8%	86.2%
Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue)		0.0%	0.0%	0.5%	93.3%	0.0%	85.8%	86.2%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	30.0%	19.5%	18.1%	0.0%	26.4%	32.2%	37.4%
Longstanding Debtors Recovered	Debtors > 12 Mths Recovered/Total Debtors > 12 Months Old							
Creditors Management								
Creditors System Efficiency	% of Creditors Paid Within Terms (within`MFMA' s 65(e))							
Creditors to Cash and Investments		0.0%	319.5%	144.4%	0.0%	450.0%	594.0%	673.2%
Other Indicators								
Employee costs	Employee costs/(Total Revenue - capital revenue)	35.7%	35.0%	35.0%	0.0%	35.6%	35.4%	34.8%
Remuneration	Total remuneration/(Total Revenue - capital revenue)	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Repairs & Maintenance	R&M/(Total Revenue excluding capital revenue)	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Finance charges & Depreciation	FC&D/(Total Revenue - capital revenue)	7.0%	4.6%	4.6%	0.0%	4.6%	4.4%	4.3%
IDP regulation financial viability indicators	-							
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)	40.0	40.0	40.0	–	52.9	57.5	62.2

ii.O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	47.5%	33.4%	31.1%	0.0%	43.3%	51.6%	59.4%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	–	0.8	1.7	–	0.6	0.6	0.6

Table 21 MBRR Table SA3 – Supporting detail to Statement of Financial Position

Description R thousand		Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
		Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
ASSETS							
Call investment deposits							
Call deposits < 90 days		–	–		–	–	–
Other current investments > 90 days		159 811	159 811		125 755	125 755	125 755
Total Call investment deposits		159 811	159 811	–	125 755	125 755	125 755
Consumer debtors							
Consumer debtors		259 998	267 932		327 491	399 157	475 023
Less: Provision for debt impairment		(179 251)	(195 906)		(196 183)	(214 929)	(233 336)
Total Consumer debtors		80 747	72 026	–	131 308	184 228	241 687
Debt impairment provision							
Balance at the beginning of the year		(179 251)	(179 251)		(179 251)	(196 183)	(214 929)
Contributions to the provision		–	(16 655)	–	(16 932)	(18 746)	(18 406)
Bad debts written off							
Balance at end of year		(179 251)	(195 906)	–	(196 183)	(214 929)	(233 336)
Property, plant and equipment (PPE)							
PPE at cost/valuation (excl. finance leases)		1 431 510	1 431 510		1 611 112	1 712 719	1 846 965
Leases recognised as PPE		492	492		492	492	492
Less: Accumulated depreciation		332 480	361 336		356 555	381 834	408 377
Total Property, plant and equipment (PPE)		1 099 522	1 070 666	–	1 255 049	1 331 378	1 439 081
LIABILITIES							
Current liabilities - Borrowing							
Short term loans (other than bank overdraft)		10 166	10 166		10 166	10 166	10 166
Current portion of long-term liabilities		5 484	5 484		5 484	5 484	5 484
Total Current liabilities - Borrowing		15 650	15 650	–	15 650	15 650	15 650

Trade and other payables							
Trade and other creditors		98 974	98 974		127 757	158 589	196 946
Unspent conditional transfers		68 725	68 725		34 669	34 669	34 669
VAT		–	–		–	–	–
Total Trade and other payables		167 699	167 699	–	162 425	193 257	231 615
Non current liabilities - Borrowing							
Borrowing		60 072	60 072		55 188	50 304	45 420
Finance leases (including PPP asset element)		257	257		257	257	257
Total Non current liabilities – Borrowing		60 329	60 329	–	55 445	50 561	45 678
Provisions - non-current							
Retirement benefits		21 757	21 757		21 757	21 757	21 757
Other		–	–		–	–	–
Total Provisions - non-current		21 757	21 757	–	21 757	21 757	21 757
CHANGES IN NET ASSETS							
Accumulated Surplus/(Deficit)							
Accumulated Surplus/(Deficit) - opening balance		906 013	906 013		1 117 148	1 296 751	1 398 358
GRAP adjustments							
Restated balance		906 013	906 013	–	1 117 148	1 296 751	1 398 358
Surplus/(Deficit)		211 135	211 135	–	145 546	101 607	134 246
Other adjustments					34 056		
Accumulated Surplus/(Deficit)		1 117 148	1 117 148	–	1 296 751	1 398 358	1 532 604
Reserves							
Revaluation		147 536	147 536		147 536	147 536	147 536
Total Reserves		147 536	147 536	–	147 536	147 536	147 536
TOTAL COMMUNITY WEALTH/EQUITY		1 264 684	1 264 684	–	1 444 287	1 545 894	1 680 140

2.9 Municipal manager's quality certificate

I …………………………………, municipal manager of King Sabata Dalindyebo, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name ____

Municipal manager of King Sabata Dalindyebo (GT485)

Signature ____

Date ______________________________